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ABSTRACT

The financial crisis that higher education is facing is largely an outgrowth of the unprecedented expansion that has occurred within the system during most of the past decade and a half. Budgets have increased more than sixfold since 1955 and enrollment has nearly tripled. This expansion, which was fostered in part by a marked increase in federal support after sputnik went up in 1957, led to overextension of numerous institutions. A key element in the rising college budgets were the unusually large gains that faculty salaries registered. Other factors leading to increased expenditures were foundation grants that required colleges to continue the projects, and growing student demands for services. Institutions have responded to the financial squeeze, which began in the latter 1960's when funds from government and voluntary contributors ceased to rise at their earlier rapid rates, by stepping up charges to students, holding down enrollment growth, and curbing advances in faculty salaries. There is growing recognition by the colleges of the need to improve planning, to reevaluate the directions in which they have expanded, and to search for ways to put college finance on a more stable footing. (AF)

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porate financing activities sometimes are conditioned as much by psychological factors as by real ones. But such a development would not be illogical, given the considerable amount of unutilized capacity in industry and the strong prospect that capital spending in the aggregate will remain subdued for quite a while.

Meanwhile, it is clear that Federal Reserve officials themselves can be counted among those concerned by the double-digit figures that have characterized recent money-supply growth. After all, the growth rate of almost 12% in the narrow money supply that has prevailed since the start of the year far exceeds the moderate expansion targets that have been given wide publicity by the monetary authorities. And officials do appear to have shifted toward a less accommodative stance, as evidenced by the relative tautness they have allowed to develop in the money market, including a rise to the vicinity of 5% in the rate on Federal funds (the excess reserves which commercial banks lend one another). At that level, Federal funds are roughly two full percentage points above the 1971 low.

The shift toward less ease has been cautious in character, conditioned no doubt by a concern that an abrupt move toward restraint might push up long- as well as short-term rates. For a time, all rates did in fact rise. However, as evidence of a more restrictive stance on the part of the authorities has become apparent, long-term bond prices have tended to stabilize and even to rally a bit. What this seems to suggest is that more worry existed
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Financial Stress in Academe

"PICK a College. Any College. Send Money." Across the nation these days public-service advertisements in buses, subways, and commuter trains carry this appeal, adding: "The 'college of your choice' is in trouble, deep financial trouble."

The message points up the squeeze that has beset a growing number of institutions of higher education in recent years, as revenue flows have slackened but costs have continued to mount. Some two dozen colleges have closed their doors in the past two years. Many other schools have been trimming staff and programs in an effort to break even or hold down budget deficits. Signs of strain have been particularly visible among private schools, but numerous public institutions also have come under financial pressure and have postponed expansion or even retrenched.

The turn for the worse in college finance is in large part an outgrowth of the unprecedented expansion that has occurred in the higher educational system during most of the past decade and a half. Budgets for all institutions of higher learning have risen more than sixfold, from just over $4 billion in 1955 to an estimated total of $27 billion this year. This ballooning of expenditures has accommodated a near tripling of the student body—to an enrollment total of 7.6 million for degree candidates—as well as a proliferation of activities at many schools.

The expansion was fostered in part by a marked increase in federal support for higher education, initially stimulated by the Soviet

orbiting of Sputnik in 1957 and widespread concern that the U.S. might be lagging in scientific achievement. Subsequent legislation provided substantial federal aid to students, aid to colleges for construction and other facilities, and institutional grants for research, services, and specialized training programs. All told, the flow of federal funds to the higher schools swelled from $500 million in 1955 to $4.4 billion in 1968. Moreover, funds from state and local governments, businesses, foundations and other private contributors all increased significantly during most of the period – reflecting a mood of very strong support for higher education.

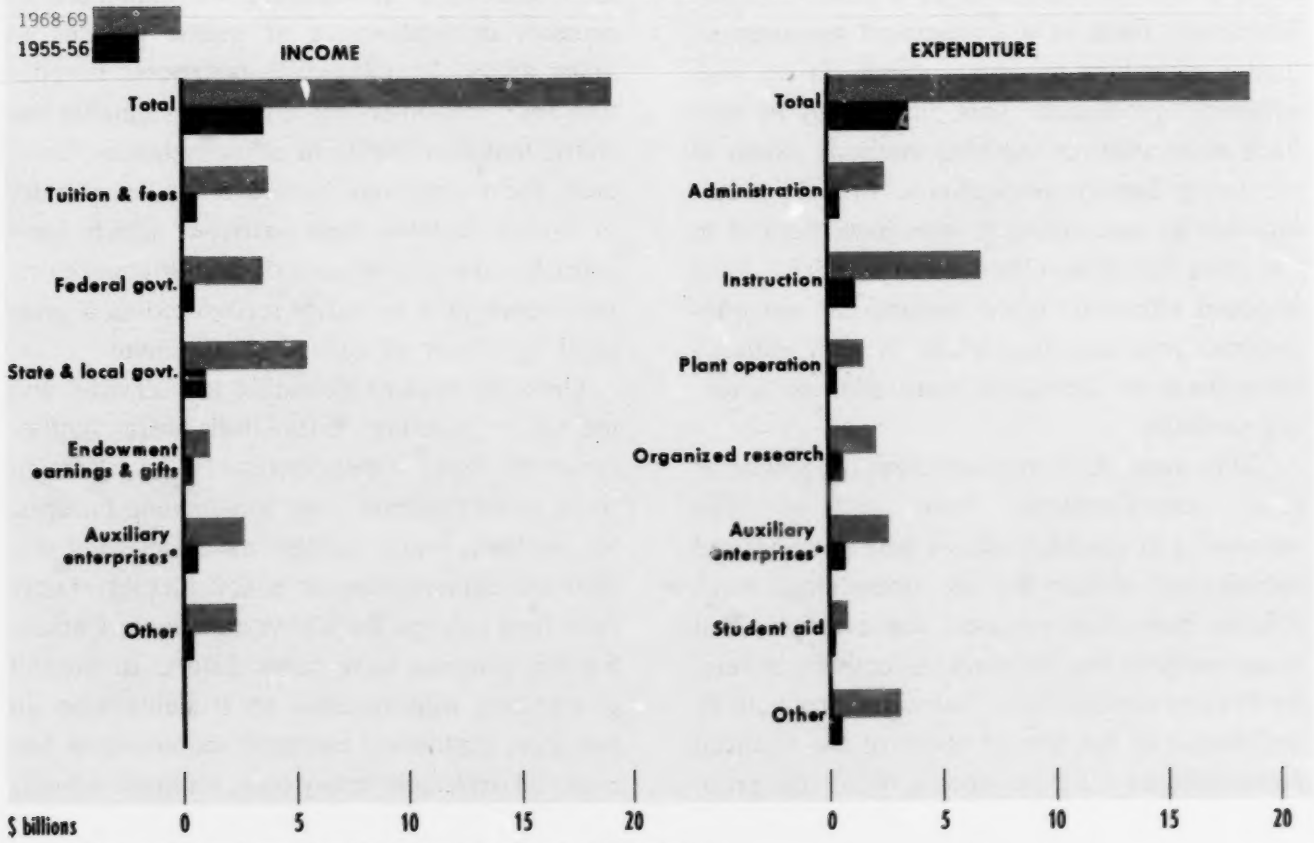
Altogether, between the 1955-56 academic year and 1968-69 (the latest year for which data are available) annual college operating revenues, or "current-fund" income, rose more than five times to almost $19 billion. This works out to an average annual increase approximating 13½%. In the decade up to 1965-66 (the latest year for which data on plant-fund receipts are available) funds received for capital projects increased fourfold, to $3.5 billion per year.

As is now being candidly acknowledged in academic circles, however, the rapid expansion led to overextension of numerous institutions. Prosperity induced a climate of boom psychology in which schools often grew haphazardly, with a proliferation of academic programs and an accretion of nonacademic activities. Schools –or members of their faculties–vied for government contracts, for instance, involving institutions in extensive research projects as well as in helping formulate and carry out public policies in almost every conceivable field from technical assistance programs abroad to crime control and pollution abatement at home. Foundation grants–providing "seed" money for a variety of purposes ranging from research and teaching in international affairs to urban-improvement programs – also were sought as major prizes. Although many schools recognized dangers in the pace of expansion, administrators often found the momentum hard to control and gambled that the money would keep coming in.

The tendency to hope for the best was reinforced by the prevailing atmosphere of competition among institutions for status and distinction. The period saw many state normal schools striving successfully for accreditation as comprehensive colleges, for instance, while major universities raided each other's campuses for academic "stars." Recalling this "dizzy, expansive time," the president of Columbia University, Dr. William J. McGill, recently described its flavor this way: "We found ourselves in cut-throat competition with other universities for a limited number of able professors, worried about our academic ratings, and wondering whether next year's growth would meet the standards set by the competition. We were frozen by the thought of becoming a second-class university through the mere exercise of civilized caution."

In this climate of expansion, very little of the money that came in to colleges and universities during the lush years got earmarked for a rainy day. Rather, current-fund expenditures rose just as fast as revenues from the late 1950s to the late 1960s–in keeping with the seldom-violated principle of college finance that spending proceeds at whatever pace income is available. This reflected not only the bulge in enrollments–which grew at an average annual rate of 7½% during the period–but also rising expenditures per student. At private institutions current-fund expenditures per student rose at an average annual rate of 8%, while at public institutions the comparable figure was 4.4%.

A key element in rising college budgets was that faculty salaries registered unusually large gains during the past decade. Whereas during the 1950s they rose at about the same rate as



NOTE: Current-fund operations only; capital projects are not included.

* Includes dormitories, dining halls, faculty housing, bookstores, and the like.

earnings in all industries, in the 1960-67 period, according to a study by Dr. June O'Neill of the Brookings Institution, faculty salaries posted annual average gains of 5.8% compared with rises of 4% for earnings in all industries. This reflected both stiff competition among schools in the academic labor market and a deliberate effort on the part of colleges to raise pay scales from what generally was considered too low a level to attract competent people.

Colleges are particularly vulnerable to wage inflation because the labor component in higher education is larger than in almost any other industry. Moreover, despite some increases in student-faculty ratios since the mid-1950s, and despite great emphasis on a variety of new audio-visual aids and computer-related techniques, rising labor expenses in colleges have not been offset materially by increases in teachers' "visible" productivity--that is, in the number of students taught per teacher. Thus increases in faculty pay translated more or less fully into increases in real costs per student.

One reason for the lag in output gains is that course offerings have steadily proliferated. This has reflected not only new knowledge, but also such factors as the widening of school objectives or efforts to meet student demands for "relevance." Coupled with traditional faculty resistance to dropping established courses, the rapid addition of new offerings has produced a situation in which numerous schools are providing too many courses to too few students.

A related problem is that on many campuses,

particularly universities, teaching a minimum number of hours has become a status symbol. Moreover, there is a widespread tendency in higher education to equate small classes with academic excellence. This has tended to hold back innovation in teaching methods aimed at increasing faculty productivity. Archaic standards set by accrediting groups have worked in the same direction. Often those standards have imposed effective "trade restrictions" on educational practices that make it very difficult for schools to introduce more efficient teaching methods.

To be sure, there are numerous exceptions to these generalizations. Some colleges have succeeded in breaking out of past patterns and introducing economies in operations. Such schools have demonstrated, for example, that many subjects can be taught effectively in relatively large classes. Nevertheless the productivity problem is at the root of much of the financial stress colleges are experiencing. While the problem is not unlike that in other service industries, where increases in output per worker have come more slowly than in manufacturing, it reflects in large measure an unbending insistence on many campuses that cost considerations remain distinctly subordinate to "educational" considerations.

Ironically, moreover, much of the bounty during the boom contributed to budgetary problems. Foundation grants, for instance, often were conditioned on college agreement to carry overhead and continue projects once the grants had expired. In one reported experience—now legendary in academe—a foundation grant of $34,000 cost the recipient university nearly half a million dollars over eight years. Contracts with Washington agencies for organized research in the sciences also proved costly for many institutions in terms of administrative time and other unreimbursed expense. This often was true as well of ventures by colleges or their staffs into serving governmental agencies as researchers, consultants, or managers of projects in furtherance of public policies in other areas. In individual instances, foundation and government money unquestionably has strengthened colleges. In other instances, however, the money has carried a further penalty in that it fostered new activities which have contributed to a confusion of institutional priorities, which now is widely recognized as a principal deficiency of college management.

Growing student demands for services and for aid in meeting college bills were another cause of rising expenditures. In an effort to serve more students from low-income families, for instance, many colleges have increased student-aid expenditures at a considerably faster pace than receipts from governments and others for this purpose have risen. Efforts to expand educational opportunities to students who do not meet customary entrance requirements has imposed extremely heavy costs on many schools for remedial work and other special programs. In addition, colleges have incorporated a growing number of nonacademic services in their programs—from psychiatric and gynecological care to performing arts programs—besides expanding traditional athletic programs. The spread of campus disorders in the latter 1960s, moreover, caused a steep climb in the costs of security, insurance, property damage, and the like for many schools.

With the spending momentum that had been generated during the boom, many colleges inevitably began to feel squeezed in the latter 1960s when funds from governments and voluntary contributors ceased to rise at their earlier rapid rates. The tightening of spending policy in Washington, the economy's slowdown, and the increasingly strained budget positions of state and local governments were prominent causes of the slowing in revenue growth. Another was the spectacle of campus disorders

–which plainly dampened support not only in state legislatures but also among alumni and other private contributors. Moreover, many colleges experienced a dramatic slowing in revenue flows from businesses and foundations, reflecting in part a shift of emphasis among these organizations toward support of ghetto-located social-action philanthropies. Since the tapering off of revenue inflow coincided with an acceleration of inflationary pressures, the pinch was especially severe.

Federal outlays for higher education charted a declining rate of increase after the mid-1960s, and in 1969 they showed no rise over the 1968 level. Voluntary contributions for current purposes in 1967 and 1968 fell below those of the 1965 peak. These curtailments affected private institutions in particular, as both federal and voluntary sources account for a higher proportion of revenues in these schools than in public schools (accompanying box). Public institutions, of course, felt cutbacks in appropriations requests imposed by many state governments, as state funds are the largest single source of their operating revenues. Federal sources, however, are far from insignificant in public school revenues, especially in major research universities, and many of these institutions also felt Washington's cutback.

A common response to the squeeze was of course to step up charges to students. Average tuition and required fees at private institutions, according to estimates of the Office of Education, have risen more than 7½% a year since 1965, compared with 6% a year in the first half of the 1960s. The average charge this year was some $1,600, while tuitions of $2,600 were not uncommon at prestigious Eastern schools (where, with room and board, total charges approximated $4,000). At public institutions tuition and fee increases have averaged more than 6% a year since 1965, as against 4% in the first half of the decade. The average charge this year was $350, with room and board bringing total charges to an average of $1,250.

SOURCES OF CURRENT-FUND REVENUE, 1967-68
(percent of total)

	Public institutions	Private institutions
Total current-fund revenue	100.0	100.0
Educational and general	83.6	80.2
Tuition and fees	11.6	33.6
Federal government	17.8	23.2
(Research)	(10.8)	(19.4)
(Other)	(7.0)	(3.8)
State governments	39.9	1.0
Local governments	4.6	0.3
Endowment earnings	0.3	5.1
Private gifts	0.6	7.6
Other	8.8	9.4
Auxiliary enterprises*	13.9	16.1
Student-aid grants†	2.5	3.7

* Includes dormitories, dining halls, bookstores, faculty housing, and the like.
† Money contributed by all levels of government and by private donors for student aid.

The increased charges, however, made up only in part for lags in income from other sources. Many campuses thus have acted to pare expenditures. Some institutions have held down enrollment growth. Others have curbed advances in faculty salaries despite rising prices, dropped courses, and adopted a host of other cost-cutting measures – ranging from shorter library hours to sharing of course loads and administrative services, such as purchasing, with neighboring institutions.

Besides forcing spending cuts, austerity has provided an impetus for many colleges to address basic problems of management. A consensus on the main imperatives has begun to emerge among educational leaders, based to a large extent on the experiences of institutions that have exhibited the ability to foresee problems of overextension and to cope with

these and other pressing problems effectively.

One major theme is the need for improved financial planning, on both the income and expenditure side of budgets. Numerous college officials have acknowledged, for instance, that in the past they have paid insufficient attention to establishing sound projections of income or to the enhancement of endowment earnings. The need for colleges to adopt cost-analysis techniques in planning expenditures also has gained a growing number of adherents. This reflects recognition that much more should be done to adapt teaching methods to the necessities of the subject. While some courses (such as music instruction) may require almost a one-to-one relationship between teacher and student, in others it has been proven that a good lecturer can teach hundreds of students.

A related theme being stressed—as well as acted on by a growing number of institutions—is the need for colleges to reevaluate the directions in which they have expanded. Essentially this is a call for schools to decide which pursuits—curricular and extracurricular—are really essential to their individual goals and to eliminate those that are peripheral. Put another way, this is a call for reversal of the trend of the past decade or two for institutions to attempt to be all things and for a return to earlier concepts of specialization, with different kinds of colleges focusing on different objectives—such as technical or liberal-arts education.

The common-sense nature of the imperatives that are emerging raises a question as to why they have not been the practice all along. One reason is that in many institutions trustees have been reluctant to face responsibilities for auditing performance. But outside influences also have played a part. Until relatively recently, donors often distributed money somewhat indiscriminately in response to college pleas of "need." This has been a major factor in perpetuating lax practices in countless institutions. Moreover, public policy—reflected in government programs designed to enlist colleges in performing an increasing number of tasks in the public interest—unquestionably has added to problems of college management. President Nixon has acknowledged Washington's role in the priorities problem, for instance, observing that: "In many cases the federal government has hired universities to do work which has borne little natural relationship to the central functions of the institution."

Volume is no answer

It also needs to be recognized that public policy has contributed in other ways to the overextension besetting many schools. Through a variety of student-aid programs federal and state governments have encouraged the rapid enrollment expansion of recent years. But because college charges cover only part of the expenditures per student, each additional student—except in schools operating below capacity or able to reap economies of scale from enrollment growth—has imposed an additional burden on the institution's resources. Moreover, state and local governments have supported an extraordinarily rapid expansion—and a qualitative upgrading—of many public institutions. This has created a virtual monopoly for state and municipal schools, where tuition is either low or nonexistent, over a large part of the student market. As evidence of this, public schools have increased their share of total enrollments from 55% in 1955 to 70% in 1968. Among other things, this has had the perverse effect of preventing private schools—for which tuitions are the largest source of operating funds, accounting for one third of current income—from raising charges to levels they deem appropriate.

Nonetheless, to an increasing extent outsiders are making it known that they expect colleges to demonstrate that they are taking

steps to improve efficiency and hone priorities. With expenses spiraling in recent years, donors and legislators have begun to question more closely than in the past not only the amount of resources devoted to higher education but the uses to which those resources are put. And this tendency probably will continue to prevail, in view of the large educational bill society will be asked to pay in years ahead.

To be sure, enrollment growth is expected to moderate considerably during the 1970s, reflecting a decrease in the proportion of the population reaching college age. Official projections point to a 40% increase by 1978, compared with an increase of 90% in the 1960-68 period. Pressures on faculty salaries are similarly expected to moderate, because the supply of candidates for teaching jobs will be much larger relative to demand in the 1970s than was the case during the 1960s. These considerations imply a marked slowing in the rate of expenditure growth. Even so, various projections suggest that college outlays may well be about twice as large toward the end of this decade as at the end of the last, with higher education absorbing an increasing share of national resources during the period.

A financial quest

This outlook, together with the current squeeze, has imparted fresh interest to a search for ways to put college finance on a more stable footing. One idea that has been gaining new attention and backing among educators is that of changing the emphasis of public policy toward support of students at a sufficiently high level to permit them to choose more widely among colleges, irrespective of individual means, thus introducing a more competitive market situation among schools. Another approach often proposed by educators is that the federal government extend general support to colleges based on a broad formula—such as enrollments at each institution or instructional costs. Stress on either major approach, however, could create new problems. An emphasis on aid to students rather than to institutions, forcing colleges to meet the test of the market place, could well prod colleges to better performance. Certainly the idea is worthy of sympathetic study. On the other hand aid programs enhancing student ability to pay higher tuitions conceivably could work the other way, cutting down on incentives for colleges to reduce costs. That possibility also is inherent in proposals that the federal government provide general formula aid to colleges. Such considerations caution prudence in making decisive shifts in public policy, imperfect as that policy has been.

Whatever the outcome of current debate over new forms of aid, colleges' own actions in tightening up operations will be crucial to restoration of financial health. The need for improved management tools is evident, as is the case for increased specialization among institutions. If long-term solutions to the problems of financial stress are to be found, these ideas and others which have been gaining acceptance among educational leaders will need to be actively pursued. The acute problems now facing the colleges add urgency to that need.